



# Of Interest In Kentucky

Quarterly Newsletter of the Department of Financial Institutions

Issue No. 9, Summer 2009

*"DFI's mission is to serve Kentucky residents and protect their financial interests by maintaining a stable financial industry, continuing effective and efficient regulatory oversight, promoting consumer confidence, and encouraging economic opportunities."*

## Beware of ACH fraud, hackers

Recently, a sophisticated hacking scheme was perpetrated on a bank customer in Kentucky. The customer essentially had its identity stolen and money was transferred out of its bank accounts through ACH transactions.

A group from Ukraine hacked into the customer's internal network and obtained numerous usernames, passwords, access to e-mail accounts and overall network usage. In addition, the hackers used malicious Trojan software to make it appear they were logging into the victim's bank account using the victim's own Internet connection. With this breach of security, they were able to set up and execute "payroll" transactions, which resulted in transferring money to numerous accounts across the nation.

In this instance, the bank itself was not a target, and bank management has determined that its security was not breached. However, this raises the important issue that all financial institutions should analyze their network security and internal controls to protect both themselves and their customers.

While this list is not all-encompassing, the following are some recommended precautions to consider taking:

- Remind staff and customers not to open e-mails from individuals they do not know. Malware often circulates through such e-mails and sometimes can bypass anti-virus protections.
- Review your ACH procedures to see what additional security measures should be implemented.
- Use IP authentication or a filtration system, so files established by or tampered with by an IP

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**Jack Gallagher and Pam Krueger show teachers how video clips from Money Track can enhance classroom lessons about investing.**

## Materials for teachers

Many Kentucky high school teachers will bring investing and credit knowledge to the classroom this school year. Educators received curriculum materials at the Life Fundamental\$ 2009 Financial Literacy Summit in June and Career and Technical Education Summer Program in July.

The financial literacy summit focused on investing knowledge this year, thanks to a grant DFI secured from the Investor Protection Trust. More

than 120 high school teachers attended the July 23 event in Lexington. It was conducted by the Kentucky Council on Economic Education with support from DFI, the Kentucky Jump\$tart Coalition and others.

The morning session focused on commonsense economics, and the lunch presentation featured Pam Krueger and Jack Gallagher of the investor education TV series MoneyTrack.

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*In Brief ...*

### Mortgage laws change, dates set

Mortgage licensing and registration laws in Kentucky have changed. House Bill 106 incorporated federal S.A.F.E. Act requirements into Kentucky state law. Some provisions have al-

ready taken effect. An executive order establishes many dates when new provisions will begin.

Visit [www.kfi.ky.gov/nondepository/mortgagelaw/](http://www.kfi.ky.gov/nondepository/mortgagelaw/) to read the executive order and for more information about implementation dates.

## Annual report is positive, despite downturn

DFI's 2008 Annual Report shows that despite the national economic downturn, Kentucky's state-regulated financial institutions remain strong.

The assets of both state-chartered banks and credit unions increased in 2008 — \$2.4 billion and \$153 million respectively. Although the number of mortgage companies and bro-

kers declined in Kentucky in 2008, the industry remains strong and well-regulated. And while the recession has revealed some national securities Ponzi schemes, DFI has continued to ensure that the investment companies, broker-dealers and advisers serving Kentucky citizens are operating legally and ethically.

To view or download the report, visit [www.kfi.ky.gov/aboutus/annualreports.htm](http://www.kfi.ky.gov/aboutus/annualreports.htm).

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## Beware of ACH fraud, hackers

address outside of your customer's normal range would be flagged for review.

- Remember, user name, password and challenge questions won't stop scam artists who have successfully installed a keylogger on your customer's system.
- Review logs daily to detect suspicious activities.
- Review change reports daily.
- Use personal authentication methods (such as a phone call) before allowing an unusual ACH transaction to be processed.
- Suggest (or require that) your customers implement dual control for file development and release. For example, one user can build the file, but a second user with different credentials should approve and release it.
- Consider using tokens to increase password security.
- Consider using a USB key or card.
- Re-evaluate your security program. Eliminate as much unknown as possible by increasing simple security measures to help detect and prevent fraud.

• If ACH fraud has occurred, it is important to completely terminate access or manually release files until the investigation is complete, especially if there is any suspicion that a keylogger is involved.

State Auditor Crit Luallen has recently posted detailed information on best practices to protect computer-based information and resources from unauthorized access or use. This information may be found at [www.auditor.ky.gov/Public/BJSecurityapp/bestpractices.html](http://www.auditor.ky.gov/Public/BJSecurityapp/bestpractices.html). After reviewing, you may consider recommending the Web site to your customers for their own protection.

## DFI issues new bank charter

DFI issued a new bank charter to Bluegrass Community Bank of Danville this spring.

Inside the bank, customers have a unique interaction with the tellers. Instead of a row of teller windows behind a counter, the tellers work at rounded pod-style stations. Also, the drive-through does not have a window. Through video cameras and other technology, the tellers can assist drive-through customers while also assisting customers in the lobby.

"This is something we've done a little different. We wanted to make the staff more efficient," said President and CEO Douglas W. Ayers.

The bank is located at 113 Smoky Way, PO Box 289, Danville, KY 40423. While the Web site is still under construction, Internet banking is available at [www.bluegrasscommunitybank.com](http://www.bluegrasscommunitybank.com).



**Bluegrass Community Bank President and CEO Douglas Ayers, left, stands in front of the bank with DFI Commissioner Charles Vice, center, and examiner Tim Meador.**

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## Teachers get materials

Season two of MoneyTrack is now airing on KET on Wednesdays.

The second half of the summit featured workshops where teachers received free financial literacy curriculum materials for their classrooms. DFI hosted sessions on credit and investing. The investing session drew more than 50 educators. DFI's Kelly May joined Pam and Jack to review the curriculum content and discuss ways outside resources,

such as MoneyTrack, can be used to make the material relevant to teens.

"These are great materials to take away. I'm glad there's a fraud section," said Sarah Farmer, who teaches at Walden School in Louisville, Ky.

DFI also distributed the investing and credit curriculum materials at a teacher's conference in July in Louisville. DFI was part of the Kentucky Jump\$tart booth in the vendor area, which drew 312 visitors. In addition to the materials distributed during DFI's three workshops, many teachers signed up to receive the materials by mail.



## DFI improves Web site navigation

DFI has restructured its Web site, [www.kfi.ky.gov](http://www.kfi.ky.gov), to improve navigation relating to industry regulation and licensing. Three new channels organize information for: Banks and Credit Unions, Securities and Non-depository, which includes mortgage lenders, consumer and industrial lenders, check cashers and money transmitters. The Nondepository channel also includes pages about law changes because of House Bills 444 and 106.

In addition, DFI created two new pages in the Public Resources channel to offer consumers investment and credit help. Both pages tell how to check licensing of a product and seller, as well as giving links to brochures, games and information.

Web suggestions may be e-mailed to [kfi@ky.gov](mailto:kfi@ky.gov).

## Jewell Robbins pleads guilty

On April 10, Jewell Robbins was sentenced in Fayette County Circuit Court to three years in the state penitentiary, probated for five years, for violating Kentucky's securities laws covering registration.

Robbins pleaded guilty on Feb. 13. The charges result from an investigation by the U.S. Postal Inspection Service and DFI. The Fayette Commonwealth's Attorney's Office prosecuted.

In a separate case, Robbins was sentenced to 120 days in jail by a Franklin Circuit Court judge on July 16, 2008. She was found in contempt of court because she continued to sell securities despite a court order.

For more information, visit [www.kfi.ky.gov/public/dfivrobbins.htm](http://www.kfi.ky.gov/public/dfivrobbins.htm).



**DFI employee Kim Yeast, left, paints a face at the Public Protection Cabinet booth at the Governor's Derby Celebration. DFI joined other cabinet agencies to inform more than 100 booth visitors of department and cabinet activities.**

## Abuse must be reported

Did you know Kentucky financial institutions are mandatory reporters of abuse, neglect and exploitation of seniors? According to state law, KRS Chapter 209, "Any person ... having reasonable cause to suspect that an adult has suffered abuse, neglect or exploitation, shall report."

The 22 attendees of the Kentucky Protecting Vulnerable Adults Summit in Frankfort in June learned how to recognize signs of abuse, protect senior account holders from exploitation and scams and how to report suspicious activities. The summit, co-sponsored by DFI, was geared toward staff who set policies and procedures and those who work directly with senior account holders in banks and credit unions. The presentations were designed to help institutions stay in compliance.

Financial abuse is considered the most common form of abuse to elders, costing victims an estimated \$2.6 billion a year.

**To report suspected abuse or exploitation, call 800-752-6200.**

# Check casher laws change

The laws governing check cashing in Kentucky have changed. Some provisions of House Bill 444 took effect June 25. However, most of the provisions take effect Jan. 1, 2010, as specified in the bill. Changes include legal definitions, rules for licensing, enforcement and company requirements.

The 10-year moratorium on new check cashers began July 1. At this time, Kentucky has around 750 check cashers. While new licenses may not be issued, current licenses are transferable or assignable, subject to approval by DFI.

DFI is procuring a database that will be operational by July 1, 2010. With real-time access through an Internet connection, check cashers will be able to verify a customer's eligibility to make a deferred deposit transaction. The Finance and Administration Cabinet will select a vendor to build the database after soliciting proposals. The request for proposal (RFP) may be accessed at <http://eprocurement.ky.gov/>.

For more information on the changes brought by HB 444, visit [www.kfi.ky.gov/nondepository/hb444.htm](http://www.kfi.ky.gov/nondepository/hb444.htm).

## Charity work

### DFI supports March of Dimes

DFI raised more than \$570 for the March of Dimes through potluck meals, a pizza party and receipts, walk sponsorships and a pie throwing contest. After a money jar fundraising competition, Financial Institutions Division Director Kathy Stewart, who raised the most money, got to throw whip cream pies at the commissioner and deputy commissioner. Also several DFI employees participated in the capital march on April 17.

"DFI has once again shown our generosity and our willingness to help those in need," said Commissioner Charles Vice.

## Vice earns seat on national board

DFI Commissioner Charles Vice has been appointed to a national board and committee and also represents bankers as a district leader. Vice takes on these leadership roles through the Conference of State Bank Supervisors (CSBS), the nationwide organization representing state bank regulators.

Vice now serves on CSBS' Educational Foundation of State Banking Supervisors Board of Trustees. The board makes policy and funding decisions for the foundation, which sponsors professional training programs for bank examiners and senior staff.

Vice also was appointed to serve as a member of the CSBS Federal Financial Institution Examination Council (FFIEC) State Liaison Committee and as vice chairman of the CSBS District II region.

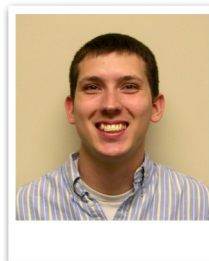
The role of the District II vice chairman is to help represent the views of the district members at Board of Directors meetings and act as communication liaison between the board and the district members.

FFIEC is a formal interagency body empowered to prescribe uniform principles, standards and report forms for the federal examination of financial institutions.

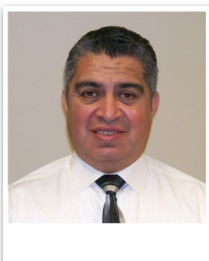
# Meet the new employees

**Clarke Goucher** joined DFI on July 1 as a Financial Institutions Examiner I in the Lexington field office. He worked at Kroger for seven years and recently graduated from the University of Kentucky with a bachelor's degree in mathematical economics.

He lives in Richmond. He is engaged to Tiffini Jones and they have a 2-year-old son, Collin.

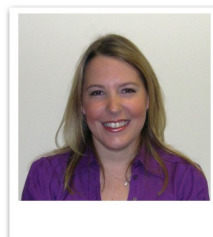


**Joe Ramones** brings military and world experience to the Credit Union Branch as a Financial Institutions Examiner I, hired on July 16. He retired from the Army in 1997 after 21 years of service, including operations Desert Shield and Desert Storm. After enjoying retirement for a while, he worked as a field auditor for the Department of Revenue for two years. He graduated Magna Cum Laude with a bachelor's degree in accounting from McKendree University in Illinois. He and his wife, Gail, live in Elizabethtown with their two daughters, Michaela, 14, and Bethany, 12. Joe has three children who live in Texas, Joseph, Jarett and Alisha. Joe and Gail also sponsor two children from Mexico and Thailand with Children Through Compassion International.

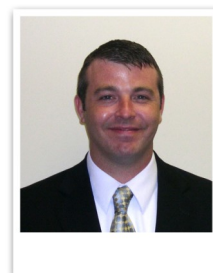


**Keren McCray** became a Financial Institutions Examiner I on July 16. "I really like it here," she said. "It's definitely interesting." Before joining DFI, she worked in sales and marketing at Gall's

for more than four years. She earned a bachelor's degree in business administration with a concentration in accounting from Midway College. She lives in Lexington with two dogs and a cat.



**Tom Harding** transferred to DFI from another state government office on July 16. Now a Financial Institutions Examiner I, he previously worked for the Department of Workforce Development in the Education Cabinet as a workforce development specialist and in employment services. He graduated from Berea College with a bachelor's in business administration with a focus in management and a minor in economics.



"There's a lot to learn, but I'm really glad to be on board here," he said. "I can really utilize the skills I learned in college." He currently lives in Berea with his son, Jacob, 13, but he plans to move to Lexington.

Also DFI has hired a few interim staff members. **Bill Stone** rejoined the Securities Compliance Branch on April 1. Bill retired from DFI after working here for eight years, and a total of 24 years in state government. He will be helping to train new securities examiners. **Tabitha Shreffler** started work on July 16 as a certified examiner. She will be working on a part-time basis to review examiner reports and will consider ways to make all DFI examination reports better.

## Mutual fund registration fees increase

The fee has increased for registration of some individual mutual funds. This covers mutual funds registered under the Investment Company Act of 1940.

Any notice filing (except Unit Investment Trust) that contains more than one fund or portfolio among its shares, will pay a \$1,000 registration fee. For details, please visit [www.kfi.ky.gov/securities/registrations.htm](http://www.kfi.ky.gov/securities/registrations.htm).

## DFI supports Financial Literacy Month in April

DFI offered class presentations to schools for Financial Literacy Month. DFI staff visited 18 schools and talked to 1,539 students about budgeting, credit and saving/investing.

## DFI Contacts

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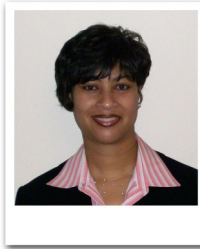
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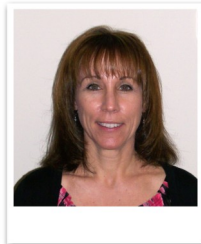
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# Meet the new staff members

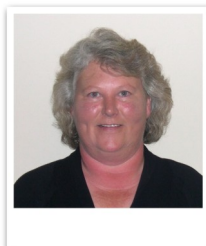
**Shonita Bossier** became the Securities Division Director on May 1. She has worked for various financial institutions and international trust companies, including the Bank of Bermuda, U.S. Bancorp and Fifth Third Bank. She has managed international trade settlement operations and is experienced in trust administration and operations. "The work (at DFI) is very interesting and rewarding," Shonita said. "In the Securities Division, the people are passionate about what they do day-to-day." The New York native earned her bachelor's in business administration from New Paltz College in New York and now lives in Louisville.



**Lisa Clark** brings 27 years of experience in state government to the position of Administrative Branch Manager. She joined DFI on May 16. Previously she was administrative branch manager for the Kentucky Transportation Cabinet. Among her honors, she earned the Lifetime Achievement Award when she was assistant director of the Division of Mental Health and Substance Abuse. She lives in Midway, and her daughter, Vanessa, just graduated from Eastern Kentucky University.



**Anna Dennis** brings 20 years of broker-dealer experience to her position in the Securities Division. She became a Financial Institutions Examiner I on June 1. "I do enjoy my work. It has been interesting," she said. Anna spent eight years with a regional firm, six with an independent firm and was an assistant prior to that. She sold her practice in December 2008. She lives in Elizabethtown and has three daughters: Ashley, 25, Laura, 18, and Rachel, 17.



**Christine Lewis** joined DFI on June 16 as legal counsel and handles primarily mortgage and securities cases. In the three years prior to joining DFI, she clerked for the Honorable Gregory F. Van Tatenhove, U.S. District Judge for Eastern District of Kentucky. Her private practice experience includes business and commercial litigation and white collar criminal matters. Christine received her juris doctorate from University of Kentucky College of Law in 2002 where she served as notes editor for the Kentucky Law Journal. She is a 1999 graduate of the University of Louisville with a bachelor's in political science and was a member of the McConnell Scholars Program. She is active on alumni boards for both schools, as well as adjunct teaching at Brown Mackie College. She lives in Lexington.



**Valerie Armstrong** was hired on a contract basis beginning July 1. She serves as Project Manager in charge of DFI technology projects, including the new Financial Institutions Data Online (FIDO) system. She has 30 years of experience in information technology, most recently working at the Stewart Home School. She lives in Taylorsville with her husband, Mark. They have two children, Michael and Amanda, and one grandchild, Brody, 2.



**Kent Perry** started July 1 as a Financial Institutions Examiner I in the Lexington field office. Raised on a farm in Henry County, Kent worked at United Citizens Bank and Trust Company for two years. He was an intern at Merrill Lynch during his last semester of college. He recently graduated from the University of Kentucky with a bachelor's degree in finance and management. He lives in Lexington. "Everybody seems really nice and welcoming," he said. "I'm looking forward to getting out in the field and learning and contributing."

